

Message Text

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E.O. 11652: GDS

TAGS: NO OVIP (KISSINGER HENRY, A.)

SUBJ: SECVISIT: BRIEFING PAPER: NORWAY'S ECONOMIC SITUATION

1. BACKGROUND: OVER THE LAST FIFTY YEARS NORWAY HAS GROWN FROM ONE OF THE POOREST TO ONE OF THE RICHEST COUNTRIES IN WESTERN EUROPE. GNP IN 1975 WAS \$24.6 BILLION OR \$6,150 PER PERSON (COMPARED TO \$7,018 IN THE U.S.). PROPELLED BY NORTH SEA OIL AND GAS, NORWAY COULD BECOME THE RICHEST DEVELOPED COUNTRY IN THE WORLD BY THE EARLY 1980S. INCOME IS VERY EVENLY DISTRIBUTED AND TAXES ARE AMONG THE HIGHEST IN THE WORLD. ALREADY A WELFARE STATE, EMPHASIS IN THE FUTURE WILL BE UPON IMPROVING THE QUALITY RATHER THAN THE QUANTITY OF SOCIAL PROGRAMS. THERE IS VIRTUALLY NO UNEMPLOYMENT, AND THE IMPACT OF THE WORLD RECESSION HAS BEEN RELATIVELY SMALL, EXCEPT ON NORWAY'S SHIPPING INDUSTRY WHICH HAS BEEN BADLY HURT. GROWTH LAST YEAR AND THIS WILL PROBABLY BE THE HIGHEST AMONG OECD COUNTRIES. (GNP GREW BY 3 PERCENT IN REAL TERMS IN 1975.) UNTIL NOW, SHIPPING AND HYDRO ELECTRIC POWER HAVE PROVIDED THE INDUSTRIAL BACKBONE OF THE COUNTRY, THOUGH THE INCREASING IMPORTANCE OF OIL MAY FORCE A MAJOR RESTRUCTURING OF THE ECONOMY IN YEARS TO COME.

NORWAY'S ECONOMY IS AMONG THE MOST HEAVILY DEPENDENT ON FOREIGN TRADE IN THE WORLD AND IN 1975 MERCHANDISE IMPORTS AND EXPORTS ACCOUNTED FOR MORE THAN HALF OF NORWAY'S GNP. INFLATION --11.5 PERCENT IN 1975--IS THE NUMBER ONE ECONOMIC PROBLEM. LABOR COSTS ARE ALREADY EXTREMELY HIGH (SEAMEN ON NORWEGIAN MERCHANT VESSELS EARN MORE THAN ON U.S. FLAG SHIPS), SPARKING

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CONCERN THAT NORWAY MAY BE PRICING ITSELF OUT OF WORLD MARKETS. A NATION-WIDE WAGE SETTLEMENT IN PRIL PROPOSES TO REDUCE INFLATION IN 1976 TO 9 PERCENT. THE MAJOR SHIPPING (NORWAY HAS THE FOURTH LARGEST MERCHANT MARINE IN THE WORLD) AND SHIP BUILDING INDUSTRIES HAVE BEEN HURT BY THE SLOWDOWN; 45 PERCENT OF NORWAY'S TONNAGE AND 20 PERCENT OF ITS VESSELS ARE LAID UP. NORWAY HAS LONG CONSIDERED ITS MERCHANT FLEET ONE OF ITS MAIN CONTRIBUTIONS TO NATO.

2. FUTURE TRENDS: NORWAY IS BETTING MUCH OF ITS ECONOMIC FUTURE ON ITS OIL AND GAS. HOWEVER, IT HAS DECIDED TO LIMIT PRODUCTION TO APPROXIMATELY TWO MILLION BARRELS A DAY (WORTH TODAY \$9 BILLION A YEAR OR ABOUT 30 PERCENT OF CURRENT GNP TO LIMIT BOTH INFLATION AND RAPID SOCIAL CHANGE, AND TO AVOID RAPID EXHAUSTION OF ITS OIL RESERVES. DEMAND FOR NORWAY'S TRADITIONAL EXPORTS OF PULP AND PAPER, ALUMINUM AND METALS, AND FISH ARE ALSO EXPECTED TO HOLD UP WELL OVER THE NEXT FEW YEARS. THE GOVERNMENT HOPES NEW REVENUES FROM PETROCHEMICALS WILL COMPENSATE FOR THE DECLINE IN SHIPBUILDING BUSINESS. NORWAY AS A MATTER OF NATIONAL POLICY WANTS TO SAVE THE SHIPPING INDUSTRY AND IS INVESTIGATING WAYS OF MAKING IT EASIER FOR SHIPOWNERS TO OPERATE OUTSIDE OF NORWAY IN LOWER COAST COUNTRIES. THE GOVERNMENT HOPES GRADUALLY TO MOVE OUT OF LABOR INTENSIVE INDUSTRIES (TEXTILES, CLOTHING, AND FURNITURE) AND TO EMPHASIZE CAPITAL INTENSIVE, HIGH-TECHNOLOGY INDUSTRIES SUCH AS PETROCHEMICALS AND ELECTRONICS. THE F-16 CONTRACT WHERE NORWAY IS FOCUSING ON ELECTRONICS AND OTHER ADVANCED SYSTEMS IS PARTICULARLY ATTRACTIVE FOR THIS REASON.

LABOR AVAILABILITY MAY BE A MAJOR ECONOMIC CONSTRAINT AS NORWAY HAS STOPPED ALL IMMIGRATION TEMPORARILY, EXCEPT FROM SCANDINAVIAN COUNTRIES. RESUMPTION OF IMMIGRATION MAY BE PERMITTED WITHIN A YEAR OR TWO UNDER STRICT CONTROLS TO ENHANCE ASSIMILATION, PROVIDE FOR EVEN DISTRIBUTION, AND GIVE IMMIGRANTS THE SAME ECONOMIC AND SOCIAL OPPORTUNITIES AS NORWEGIANS. EVEN SO THE SMALL NUMBER OF FOREIGNERS EXPECTED TO BE ADMITTED IS UNLIKELY TO SATISFY LABOR DEMAND. INDUSTRY WILL PROBABLY CONTINUE TO INCREASE ITS INCENTIVES, DRAWING YOUTH FROM FARMS AND FISHING AND AMPLIFYING THE FORCES OF ECONOMIC AND SOCIAL CHANGE MANY NORWEGIANS ARE RESISTING.

NORWAY BORROWED HEAVILY ABROAD LAST YEAR TO HELP FINANCE ITS
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BALANCE OF PAYMENTS DEFICIT AND TO MAINTAIN DOMESTIC ECONOMIC ACTIVITIES. FOREIGN DEBT IS EXPECTED TO RISE TO \$9.1 BILLION IN 1976. BUT THIS DEBT AND POSSIBLE FURTHER INCREMENTS ARE ALL EXPECTED TO BE REPAYED FROM OIL REVENUES BY THE EARLY 1980S. HALF OF THE OIL REVENUE IS TO BE INVESTED IN NORWAY, HALF ABROAD. NORWAY'S INVESTMENT OR AID ABROAD IS EXPECTED TO APPROACH \$50 BILLION IN THE 20-25 YEARS BEGINNING IN 1980, GIVING IT

AND INCREASINGLY IMPORTANT VOICE IN INTERNATIONAL ECONOMIC
CIRCLES.
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